Can America Govern Itself?: Deficits, Debt, and Delay

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Can America Govern Itself? Deficits, Debt, and Delay

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Brookings Mountain West
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The Big Picture: Unsustainable Spending

Why Deficits Matter

- Dependence on foreign lenders
- Rising interest costs
- Burden on future generations
- Limited ability to invest in children
- Limited ability to address emergencies
- Entitlement spending lockout
Burden on Future Generations
Baby Boomers as Leaches

The baby boomers inherited an economic miracle.

Then they sucked it dry. **BY JIM TANKERSLEY**

Two Burdens On Our Children and Grandchildren

- They must finance and pay off our spending
- Reduced spending on programs for children and programs that promote opportunity
Spending on Children and the Elderly, 2011

Note: Tax expenditures are not included in these figures. The population of children (those under age 19) and elderly (age 65 and older) were used to calculate per capita amounts.

Actual and Projected Outlays on Children and Other Major Items in the Federal Budget, 2007-2022

Note: Social Security, Medicare, and Medicaid category excludes spending already captured as children’s spending.
Productive Investments in Children

- Preschool education
- Home visiting
- Teen pregnancy prevention
- Career academies
- K-12 education
- Second chance programs for teens
- Community and family-based programs for delinquents
- Community college interventions
- Small Schools of Choice
The Current Situation
## The Ten Year Picture, 2014-2023 (% of GDP)

<table>
<thead>
<tr>
<th>Budget Category</th>
<th>Year 2014</th>
<th>Year 2019</th>
<th>Year 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending</td>
<td>21.2</td>
<td>21.2</td>
<td>21.3</td>
</tr>
<tr>
<td>Revenues</td>
<td>17.7</td>
<td>18.1</td>
<td>18.3</td>
</tr>
<tr>
<td>Deficit:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% GDP</td>
<td>-3.5</td>
<td>-3.1</td>
<td>-3.1</td>
</tr>
<tr>
<td>$ (billions)</td>
<td>-$611</td>
<td>-$707</td>
<td>-$938</td>
</tr>
<tr>
<td>Debt</td>
<td>73.9</td>
<td>69.9</td>
<td>73.0</td>
</tr>
</tbody>
</table>

Source: Committee for a Responsible Federal Budget
Deficit Projections, 2013-2023

Note: Based on the Alternative Fiscal Scenario.
Source: Congressional Budget Office
Rising Interest Costs

Source: Congressional Budget Office, “Updated Budget Projections: Fiscal Years 2013 to 2023,” May 2013, Table 1.
Categories of Spending and Growth of the Deficit, 2013-2088

Source: Congressional Budget Office
## Deficit Reduction So Far

<table>
<thead>
<tr>
<th>Source</th>
<th>2014-2023 Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Taxpayer Relief Act</td>
<td>$850 billion</td>
</tr>
<tr>
<td>Budget Control Act</td>
<td>$1,075 billion</td>
</tr>
<tr>
<td>Continuing Resolutions in FY2011</td>
<td>$760 billion</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$2.7 trillion</td>
</tr>
</tbody>
</table>

Source: Committee for a Responsible Federal Budget, February 2013, “Our Debt Problems are Far from Solved”
## Ten-Year Sequester Savings, 2014-2023

<table>
<thead>
<tr>
<th>Savings Category</th>
<th>Savings (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defense discretionary</td>
<td>-$491</td>
</tr>
<tr>
<td>Non-defense discretionary</td>
<td>-$329</td>
</tr>
<tr>
<td>Medicare</td>
<td>-$72</td>
</tr>
<tr>
<td>Other mandatory</td>
<td>-$48</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>-$941</strong></td>
</tr>
<tr>
<td>Interest</td>
<td>-$200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-$1,141</strong></td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office
Now What?

1. The recent agreement; continuing appropriations, October 17, 2013

2. Budget Conference Committee
   • Conferees named (22 Senators, 7 Representatives)
   • Report by December 13
Impending “Fiscal Speed Bumps”
2013-2014

December 13, 2013
Budget conference committee reports its recommendations

January 1, 2014
“Doc Fix,” farm bill, unemployment benefit expansion, & tax extenders all expire

January 15, 2014
Continuing resolution expires, second sequester on mandatory funding takes effect, first set of IPAB recommendations are proposed

Late February-Early March, 2014
Extraordinary measures to avoid debt ceiling are exhausted

Concurrent Budget Resolution

- Supposed to be passed by April 1 every year
- House and Senate plan for action on the federal budget
- Could contain instructions to committees on:
  - Sequestration spending caps
  - Tax reform
  - Entitlement reform
- Put budget on downward path
- Reform sequestration
Who Is at Fault?

- The President
- Congress
- The People
Can President Obama Cut a Deal?

• President Reagan
  » 1983 Social Security reform
  » 1986 tax reform
  » Increased defense spending

• President Clinton
  » Welfare reform
  » Balanced budget
  » NAFTA

• President Bush
  » No Child Left Behind
  » Energy legislation
  » TARP
The political middle has disappeared.

**HOUSE**

- **1982**: Most Liberal Republican: 344 Members
  - DEM Caucus
  - Most Conservative Democrat: GOP Caucus
- **1994**: Most Liberal Republican: 252 Members
  - DEM Caucus
  - Most Conservative Democrat: GOP Caucus
- **2002**: Most Liberal Republican: 137 Members
  - DEM Caucus
  - Most Conservative Democrat: GOP Caucus
- **2011**: Most Liberal Republican: 16 Members
  - DEM Caucus
  - Most Conservative Democrat: GOP Caucus
- **2012**: Most Liberal Republican: 11 Members
  - DEM Caucus
  - Most Conservative Democrat: GOP Caucus

*Source: National Journal Vote Rankings from a presentation by Mehlman Vogel Castagnetti*
Would the Public Support Entitlement Reform?

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Would you support reform of Social Security and Medicare as part of debt reduction?</td>
<td>34</td>
<td>57</td>
</tr>
<tr>
<td>Would you support reform if it were gradual and would not affect anyone over age 60?</td>
<td>55</td>
<td>35</td>
</tr>
<tr>
<td>What if the reforms were accompanied by closing tax loopholes of the wealthy?</td>
<td>61</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Poll of 800 likely voters in October 2013 by Fix the Debt (founded by Alan Simpson and Erskine Bowles)
The Big Problem

- The insidious danger: borrowing from the future to pay for present consumption has become an addiction.
- In the last 54 years, we have had 5 years of a balanced federal budget.